

**SOUTH DAVIS METRO FIRE AGENCY**

**FINANCIAL STATEMENTS**  
**with**  
**INDEPENDENT AUDITORS' REPORTS**

**DECEMBER 31, 2006**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
South Davis Metro Fire Agency

We have audited the accompanying basic financial statements of South Davis Metro Fire Agency as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of South Davis Metro Fire Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Davis Metro Fire Agency as of December 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2007, on our consideration of South Davis Metro Fire Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages four through six is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of South Davis Metro Fire Agency. The schedule of impact fees is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Pinnock, Robbins, Posey & Richins*

May 3, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Davis Metro Fire Agency's (the Agency) annual financial report presents our analysis of the Agency's financial performance during the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Agency's financial activities.

### Financial Highlights:

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$3,865,750 (net assets). Of this amount, \$1,502,822 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Agency's total net assets increased by \$887,462.
- The Agency sold the old Station 85, and the related land, for \$750,000.
- The Agency issued \$4,205,000 Ambulance Service Revenue Bonds, Series 2006. The first incremental advance on the bonds of \$3,168,000 was received during the year to finance construction of the new Station 85. The remaining \$1,037,000 will be used to help fund construction of the new Station 82.
- Construction of the new Station 85 commenced and was 20% complete as of December 31, 2006.
- The Agency purchased land in North Salt Lake City as the site for the new Station 82.

### Overview of Financial Report:

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of the Agency's financial condition and performance.

The Financial Statements report information about the Agency using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Agency on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, non-capital and related financing, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the Agency's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

### Financial Analysis:

To begin our analysis, a summary of the Agency's balance sheet is presented in the schedule below.

**South Davis Metro Fire Agency  
Condensed Balance Sheet**

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 6,961,961	\$ 4,615,749
Capital Assets	<u>2,727,683</u>	<u>2,036,387</u>
<b>Total Assets</b>	<b><u>\$ 9,689,644</u></b>	<b><u>\$ 6,652,136</u></b>
Current Liabilities	\$ 2,561,667	\$ 3,615,837
Noncurrent Liabilities	<u>3,262,227</u>	<u>58,011</u>
<b>Total Liabilities</b>	<b><u>5,823,894</u></b>	<b><u>3,673,848</u></b>
Net Assets Invested in Capital Assets, Net of Related Debt	1,917,830	2,036,387
Net Assets Restricted	445,098	107,684
Net Assets Unrestricted	<u>1,502,822</u>	<u>834,217</u>
<b>Total Net Assets</b>	<b><u>3,865,750</u></b>	<b><u>2,978,288</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 9,689,644</u></b>	<b><u>\$ 6,652,136</u></b>

The balance sheet includes all of the Agency's assets and liabilities, and net assets which are categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$3,865,750 at the end of the year. The largest portion of the Agency's net assets, \$1,917,830 (50%), reflects its investment in capital assets (e.g., land, buildings, equipment and vehicles). The Agency uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net assets, \$445,098 (12%) represents resources that are subject to external restrictions on how they may be used.

Current and other assets increased by approximately \$2,346,000 due to unexpended bond funds secured from the issuance of revenue bonds during 2006. Current liabilities decreased by approximately \$1,054,000 due to expenditures related to construction of Station 85 being applied to the \$3,100,000 liability the other member entities owe to Bountiful City for Bountiful's construction of Station 81. Noncurrent liabilities increased by approximately \$3,204,000 due mainly to the issuance of \$3,168,000 in revenue bonds during 2006.

While the balance sheet shows the change in financial position of net assets, the summary of the Agency's statement of revenues, expenses and changes in fund net assets, provides information regarding the nature and source of these changes as seen in the following schedule. Net assets increased in 2006 by \$887,462.

**South Davis Metro Fire Agency  
Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 5,907,805	\$ 5,593,101
Non-operating Revenues	<u>1,011,324</u>	<u>735,109</u>
<b>Total Revenues</b>	<b><u>6,919,129</u></b>	<b><u>6,328,210</u></b>
Depreciation and Amortization Expense	201,203	214,929
Other Operating Expense	<u>5,830,464</u>	<u>5,260,671</u>
<b>Total Expenses</b>	<b><u>6,031,667</u></b>	<b><u>5,475,600</u></b>
Change in Net Assets	887,462	852,610
Net Assets - Beginning of Year	<u>2,978,288</u>	<u>2,125,678</u>
<b>Net Assets - Ending of Year</b>	<b><u>\$ 3,865,750</u></b>	<b><u>\$ 2,978,288</u></b>

## Capital Asset and Debt Administration:

**Capital Assets.** The Agency's investment in capital assets as of December 31, 2006, amounts to \$2,727,683 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, and vehicles. The Agency's investment in capital assets for the current fiscal year increased by \$691,296 (33.9%) overall.

Major capital asset events during the current fiscal year included the following:

- Construction in progress of Station 85 – 20% complete
- Purchase of land on Englewood Drive in North Salt Lake City for construction of a new Station 82
- Sale of old Station 85 building and land

### Capital Assets Net of Depreciation

	<u>2006</u>	<u>2005</u>
Land	\$ 573,146	\$ 285,975
Buildings and improvements	202,848	422,741
Equipment	473,829	480,673
Vehicles	709,494	846,998
Construction in progress	<u>768,366</u>	<u>—</u>
TOTAL	<u>\$ 2,727,683</u>	<u>\$ 2,036,387</u>

Additional information on the Agency's capital assets can be found in Note 4.

**Long-Term Debt.** At the end of the current fiscal year, the Agency had total debt of \$3,168,000. The debt represents bonds secured solely by specified revenue sources. The Agency's debt increased by \$3,168,000 during the current fiscal year due to the issuance of Ambulance Service Revenue Bonds, Series 2006. The Agency has no outstanding general obligation debt.

### Long-Term Debt

	<u>2006</u>	<u>2005</u>
Revenue bonds	<u>\$ 3,168,000</u>	<u>\$ —</u>

Additional information on the Agency's long-term debt can be found in Note 6.

## Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Finance Officer of the South Davis Metro Fire Agency, P.O. Box 1547, Bountiful, Utah 84011-1547.

**SOUTH DAVIS METRO FIRE AGENCY**

**BALANCE SHEET**

**DECEMBER 31, 2006**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 1,707,868
Accounts receivable (net of allowance for uncollectibles)	409,904
Due from other governmental units	1,901,598
Prepays	53,864
<b>TOTAL CURRENT ASSETS</b>	<b><u>4,073,234</u></b>

Noncurrent assets:

Capital assets:

Land	573,146
Buildings and improvements	307,922
Equipment	654,873
Vehicles	2,020,754
Construction in progress	768,366
Less accumulated depreciation	(1,597,378)
Restricted cash and cash equivalents	2,803,245
Deferred bond issuance costs, net	85,482
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>5,616,410</u></b>

**TOTAL ASSETS** **\$ 9,689,644**

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 181,386
Accrued liabilities	118,386
Accrued dispatch fees	125,000
Compensated absences	235,297
Due to other governmental unit	1,901,598
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>2,561,667</u></b>

Noncurrent liabilities:

Compensated absences	94,227
Revenue bonds payable	3,168,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b><u>3,262,227</u></b>

**TOTAL LIABILITIES** **5,823,894**

**NET ASSETS**

Invested in capital assets, net of related debt	1,917,830
Restricted for:	
Capital projects	437,590
Debt service	7,508
Unrestricted	1,502,822
<b>TOTAL NET ASSETS</b>	<b><u>3,865,750</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>9,689,644</u></b>

The notes to the financial statements are an integral part of this statement.

**SOUTH DAVIS METRO FIRE AGENCY**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**OPERATING REVENUES:**

Intergovernmental	\$ 4,317,803
Charges for services:	
Ambulance and paramedic fees, net	1,544,242
Other services	32,602
Other	<u>13,158</u>

TOTAL OPERATING REVENUES 5,907,805

**OPERATING EXPENSES:**

Salaries and wages	3,343,941
Employee benefits	1,291,370
Travel and training	29,989
Office and other supplies	74,580
Repairs and maintenance	163,127
Utilities	100,684
Dispatch fees	125,000
Professional services	58,515
Insurance	66,273
Clothing allowance	44,023
Medical supplies	63,586
Depreciation	201,203
Bad debt expense	292,862
Small equipment	84,636
Miscellaneous	<u>91,878</u>

TOTAL OPERATING EXPENSES 6,031,667

OPERATING (LOSS) (123,862)

**NONOPERATING REVENUES (EXPENSES):**

Grants	121,903
Impact fees	298,755
Investment earnings	87,332
Gain on sale of capital assets	<u>503,334</u>

TOTAL NONOPERATING REVENUES  
(EXPENSES) 1,011,324

CHANGE IN NET ASSETS 887,462

TOTAL NET ASSETS – BEGINNING 2,978,288

TOTAL NET ASSETS – ENDING \$ 3,865,750

The notes to the financial statements are an integral part of this statement.



**SOUTH DAVIS METRO FIRE AGENCY**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers and users	\$ 1,516,036
Receipts from member entities	4,317,803
Payments to suppliers	(1,001,552)
Payments to employees	<u>(4,535,123)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 297,164

**CASH FLOWS FROM NONCAPITAL FINANCING  
ACTIVITIES:**

Grants	<u>72,753</u>
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**NET CASH PROVIDED BY NONCAPITAL  
FINANCING ACTIVITIES** 72,753

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Impact fees received	298,755
Proceeds from capital debt	3,168,000
Payment of bond issuance costs	(85,482)
Acquisition and construction of capital assets	(1,134,668)
Proceeds from sale of capital assets	<u>745,503</u>

**NET CASH PROVIDED BY CAPITAL AND  
RELATED FINANCING ACTIVITIES** 2,992,108

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>87,332</u>
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**NET CASH PROVIDED BY INVESTING  
ACTIVITIES** 87,332

**NET INCREASE IN CASH AND CASH  
EQUIVALENTS** 3,449,357

**CASH AND CASH EQUIVALENTS – BEGINNING** 1,061,756

**CASH AND CASH EQUIVALENTS – ENDING** \$ 4,511,113

**CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:**

Cash and cash equivalents – unrestricted	\$ 1,707,868
Cash and cash equivalents – restricted	<u>2,803,245</u>

\$ 4,511,113

The notes to the financial statements are an integral part of this statement.

**SOUTH DAVIS METRO FIRE AGENCY**

**STATEMENT OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

RECONCILIATION OF OPERATING (LOSS)  
TO NET CASH PROVIDED BY OPERATING  
ACTIVITIES:

Operating (loss)	\$ (123,862)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	201,203
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(73,966)
Prepays	5,657
Increase (decrease) in:	
Accounts payable	150,726
Accrued liabilities	37,218
Compensated absences	<u>100,188</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 297,164

**SOUTH DAVIS METRO FIRE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The South Davis Metro Fire Agency (the "Agency") was organized in October 2004, in accordance with the Interlocal Cooperation Act, by Bountiful City, Centerville City, Davis County, North Salt Lake City, West Bountiful City, and Woods Cross City. The Agency was created for the purpose of providing fire protection and ambulance and paramedic emergency services, and commenced operations on January 1, 2005. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. The South Davis Metro Fire Agency has no component units and is itself not a component unit of any other entity.

*Blended Component Unit*

The South Davis Fire District (the "District") was originally organized in July 1981 through an interlocal agreement and includes Centerville City, Davis County, North Salt Lake City, West Bountiful City, and Woods Cross City. Effective January 1, 2005, on the date that the new interlocal agreement forming the Agency took affect, the District became a component unit of the Agency.

During the year ended December 31, 2006, South Davis Fire District was dissolved by its five member entities. All assets of the former District were transferred to and are held in trust by the Agency to the benefit of the members of the former District.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Agency is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## SOUTH DAVIS METRO FIRE AGENCY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation** **(continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are intergovernmental revenues received from the Agency's six member entities and charges to customers for ambulance and paramedic services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

##### **C. Budgetary Procedures and Budgetary Accounting**

Budgetary procedures for the Agency have been established by the Uniform Fiscal Procedures Act adopted by the State of Utah, which requires the legal adoption of a budget for all funds. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. The basis of accounting applied to each fund budget is the same basis as the related fund's financial statements.

A formal budget has been adopted and used as a control device during the year ended December 31, 2006. State law allows the Agency to amend the proprietary funds budget without public hearing or public notice.

No budget is required to be presented in these financial statements.

##### **D. Cash and Cash Equivalents**

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

##### **E. Capital Assets**

Capital assets include land, buildings, improvements, equipment, and vehicles. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an

## SOUTH DAVIS METRO FIRE AGENCY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **E. Capital Assets (continued)**

estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-50
Improvements	30-50
Equipment	5-20
Vehicles	5-15

##### **F. Compensated Absences**

All vacation pay is accrued when incurred. Accrued vacation is accumulated and up to 240 hours may be carried over into the next year. In the event of termination, employees are reimbursed for the entire amount of accumulated vacation. Accrued sick leave is accumulated and may be carried forward from one year to another without limit. In the event of termination, employees receive no benefit for accrued unused sick leave unless they are retiring. Retiring employees may convert 33 1/3% of their accrued but unused sick leave, up to a maximum of 320 hours, to cash at their current rate of pay.

##### **G. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Agency to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### **2. DEPOSITS AND INVESTMENTS**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Agency follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Agency funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act

## SOUTH DAVIS METRO FIRE AGENCY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### 2. DEPOSITS AND INVESTMENTS (CONTINUED)

and adhering to the rules of the Utah Money Management Council.

##### A. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 100
Cash on deposit	<u>201,977</u>	<u>77,033</u>
<b>TOTAL</b>	<b><u>\$ 201,977</u></b>	<b><u>\$ 77,133</u></b>

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, \$101,977 of the Agency's bank balances of \$201,977 was uninsured and uncollateralized.

##### B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Agency and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Agency to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

## SOUTH DAVIS METRO FIRE AGENCY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### 2. DEPOSITS AND INVESTMENTS (CONTINUED)

##### **B. Investments (continued)**

As of December 31, 2006, the Agency had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 4,433,980	\$4,433,980	\$ —	\$ —	\$ —
Totals	\$ 4,433,980	\$4,433,980	\$ —	\$ —	\$ —

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2006, the Agency's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Agency's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk.

#### 3. ACCOUNTS RECEIVABLE

At December 31, 2006, an allowance for doubtful accounts of \$128,000 has been offset against accounts receivable to record estimated future losses.

**SOUTH DAVIS METRO FIRE AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 285,975	\$ 323,471	\$ (36,300)	\$ 573,146
Construction in progress	—	768,366	—	768,366
Total capital assets, not being depreciated	<u>285,975</u>	<u>1,091,837</u>	<u>(36,300)</u>	<u>1,341,512</u>
Capital assets being depreciated:				
Buildings and structures	686,588	—	(378,666)	307,922
Equipment	612,042	42,831	—	654,873
Vehicles	<u>2,020,754</u>	<u>—</u>	<u>—</u>	<u>2,020,754</u>
Total capital assets being depreciated	<u>3,319,384</u>	<u>42,831</u>	<u>(378,666)</u>	<u>2,983,549</u>
Less accumulated depreciation for:				
Buildings and structures	(263,847)	(14,024)	172,797	(105,074)
Equipment	(131,369)	(49,675)	—	(181,044)
Vehicles	<u>(1,173,756)</u>	<u>(137,504)</u>	<u>—</u>	<u>(1,311,260)</u>
Total accumulated depreciation	<u>(1,568,972)</u>	<u>(201,203)</u>	<u>172,797</u>	<u>(1,597,378)</u>
Total capital assets, being depreciated, net	<u>1,750,412</u>	<u>(158,372)</u>	<u>(205,869)</u>	<u>1,386,171</u>
CAPITAL ASSETS, NET	<u>\$ 2,036,387</u>	<u>\$ 933,465</u>	<u>\$ (242,169)</u>	<u>\$ 2,727,683</u>

**5. DUE FROM/DUE TO OTHER GOVERNMENTAL UNITS**

The interlocal cooperation agreement forming the Agency requires that the five member entities of the South Davis Fire District provide \$3,100,000 in capital improvements to the Agency before Bountiful City is required to pay its proportionate share of any additional assessments related to capital improvements. Accordingly, a due from other governmental units balance of \$3,100,000 was originally recorded in the South Davis Fire District fund, representing amounts owing from the five member entities of the District. A corresponding due to other governmental unit balance was recorded in the South Davis Fire District fund, representing the amount owing to Bountiful City. Various costs incurred in the acquisition of land for and the design and construction of a new fire station have been applied to this balance. The due from/due to balances were \$1,901,598 at December 31, 2006.

**6. LONG-TERM DEBT**

***Revenue Bonds***

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No amounts outstanding at the end of the current fiscal year



**SOUTH DAVIS METRO FIRE AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**6. LONG-TERM DEBT (CONTINUED)**

related to bonds issued in prior years. During the year, revenue bonds totaling \$3,168,000 were issued to finance construction of a fire station. This amount represents the first incremental advance of funds on total Ambulance Service Revenue Bonds of \$4,205,000. The second incremental advance of \$1,037,000 will occur upon acquisition of property and appointment of a contractor for construction of a second fire station. If the Agency does not meet the requirements for the second incremental advance, it will only be responsible for the \$3,168,000 received during 2006. Interest on the bonds will begin to accrue on October 1, 2007. Revenue bonds outstanding at December 31, 2006 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Fire station construction	4.00%	\$ 3,168,000

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ —	\$ —	\$ —
2008	101,000	126,720	227,720
2009	105,000	122,680	227,680
2010	109,000	118,480	227,480
2011	114,000	114,120	228,120
2012-2016	640,000	498,600	1,138,600
2017-2021	778,000	360,000	1,138,000
2022-2026	947,000	191,360	1,138,360
2027-2031	374,000	21,400	395,400
<b>TOTALS</b>	<b>\$ 3,168,000</b>	<b>\$ 1,553,360</b>	<b>\$ 4,721,360</b>

The District had no general obligation bonds outstanding at December 31, 2006.

***Changes in Long-Term Debt***

Long-term debt activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue Bonds	\$ —	\$ 3,168,000	\$ —	\$ 3,168,000	\$ —
Total bonds payable	—	3,168,000	—	3,168,000	—
Compensated absences	229,336	100,188	—	329,524	235,297
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 229,336</b>	<b>\$ 3,268,188</b>	<b>\$ —</b>	<b>\$ 3,497,524</b>	<b>\$ 235,297</b>

## **SOUTH DAVIS METRO FIRE AGENCY**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

#### **7. EMPLOYEE RETIREMENT PLANS**

##### ***Plan Description***

The Agency contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and the Firefighters Retirement System (Firefighters System) which is for employers without Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustment, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement Systems, and Firefighters Retirement System, which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling (800) 365-8772.

##### ***Funding Policy***

In the Local Governmental Noncontributory Retirement System, the Agency was required to contribute 11.09% of their annual covered salary from January through June 2006 and 11.59% from July through December 2006. In the Firefighters Retirement System for employers without Social Security, covered plan members were required to contribute 8.61% of their annual covered salary from January through June 2006 and 10.84% from July through December 2006 (all was paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Agency's contributions for the Noncontributory Retirement System for the years ended December 31, 2006 and 2005 respectively were \$10,794 and \$6,937 on covered salaries of \$95,057 and \$62,551, respectively. The Firefighters Retirement System contributions for the years ended December 31, 2006 and 2005 respectively were \$192,647 and \$155,302 on covered salaries of \$1,980,083 and \$1,803,726, respectively. The contributions were equal to the required contributions for each year.

##### ***401(k) Plan***

Employees of the Agency may also participate in a 401(k) plan administered by the System. The Agency's contributions to the Plan for the years ended December 31, 2006 and 2005 respectively were \$226,447 and \$234,445. Employee contributions made to the 401(k) plan for 2006 and 2005 respectively were \$53,282 and \$47,786.

#### **8. DEFERRED COMPENSATION PLAN**

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No. 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than

## SOUTH DAVIS METRO FIRE AGENCY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### **8. DEFERRED COMPENSATION PLAN (CONTINUED)**

as an "Agency Fund". Currently, all of the assets and income of the 457 Plan are held in trust by the Utah Retirement Systems for the exclusive benefit of the participants or their beneficiaries rather than as assets of the Agency. The Agency made no contribution to the plan during 2006 and 2005.

#### **9. COMMITMENTS**

During the year, the Agency entered into a contract for construction of a fire station. As of December 31, 2006, there was approximately \$2,505,000 outstanding on the contract.

During the year, the Agency entered into a contract to purchase a fire engine for approximately \$418,000.

North Salt Lake City and the District entered into an agreement whereby North Salt Lake City agreed to make available to the District approximately 7,140 square feet of space located in the North Salt Lake City Office Complex. From June 30, 1999 until June 30, 2037, or the life of the agreement, North Salt Lake City shall charge the District only the actual costs of providing insurance and utilities to the portion of the building occupied by the District. For the year ended December 31, 2006 the District paid \$11,261 to North Salt Lake City on this lease.

Centerville City and the District entered into an agreement on October 2, 1995, whereby the City agreed to lease to the District the real property commonly known as Station No. 3. A nominal sum of \$1 per year is required and the lease has a term of fifty years.

The District pays a drainage tax to Centerville City. Total expense for the year ended December 31, 2006 amounted to \$312.

#### **10. RELATED PARTIES**

The Agency is operated by tax revenues supplied by the six member entities. The governing board is comprised of the officials of these entities. During the year ended December 31, 2006, these entities provided the following revenues to the Agency for its operations:

Bountiful City	\$ 1,661,153
Centerville City	604,323
Davis County	118,970
North Salt Lake City	778,634
West Bountiful City	237,432
Woods Cross City	<u>390,291</u>
	<u>\$ 3,790,803</u>

The Agency has also entered into an interlocal cooperation agreement with Davis County. Under the agreement, the Agency is required to house and operate two paramedic units in the County. The County imposes a paramedic and ambulance levy, from which the Agency received \$527,000 from the County during 2006. This amount, along with the above amounts paid by the six member entities, is reported as intergovernmental revenue in the statement of revenues, expenses, and changes in net assets.

**SOUTH DAVIS METRO FIRE AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**10. RELATED PARTIES (CONTINUED)**

Dispatch services for the Agency were provided by Bountiful City during the year ended December 31, 2006. Total dispatch fee expense for the year amounted to \$125,000 and was accrued at December 31, 2006. Although no formal written agreement is in place, Bountiful City will continue to provide dispatch services for the Agency in 2007.

**11. SUBSEQUENT EVENTS**

Subsequent to December 31, 2006, the Agency entered into an agreement with a construction company to function as Construction Manager/General Contractor in the design and construction of a new fire station, in an amount not to exceed \$2,025,000.

**OTHER SUPPLEMENTARY INFORMATION**

**SOUTH DAVIS METRO FIRE AGENCY**

**SCHEDULE OF IMPACT FEES**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Four of the member entities of the Agency collect public safety impact fees for use by the Agency. The following is a recap of the impact fees outstanding by year of collection:

<u>Year Collected</u>	<u>Public Safety</u>
2006	\$ --
TOTAL	\$ --

The following capital projects are planned to use the impact fees shown above:

<u>Planned Capital Project</u>	<u>Projected Cost</u>	<u>Anticipated Start Date</u>
Station 85	\$ 3,846,000	October 2006
Station 82	\$ 2,507,000	June 2007



# PINNOCK, ROBBINS, POSEY & RICHINS

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
South Davis Metro Fire Agency

We have audited the financial statements of South Davis Metro Fire Agency as of and for the year ended December 31, 2006, and have issued our report thereon dated May 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered South Davis Metro Fire Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Davis Metro Fire Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies described in the accompanying management letter to be significant deficiencies in internal control over financial reporting (items 1 through 7).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 3 through 7 to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether South Davis Metro Fire Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, and applicable regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

May 3, 2007





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## INDEPENDENT AUDITORS' REPORT ON STATE OF UTAH LEGAL COMPLIANCE

Board of Directors  
South Davis Metro Fire Agency

We have audited the financial statements of South Davis Metro Fire Agency for the year ended December 31, 2006, and have issued our report thereon dated May 3, 2007. The Agency received the following nonmajor grants, which are not required to be audited for specific compliance requirements. However, these programs were subject to testwork as part of the audit of the Agency's financial statements.

### EMS Equipment and Training Grants

Our audit included test work on the Agency's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues
- Impact Fees

The Agency did not receive any major State grants during the year ended December 31, 2006.

The management of South Davis Metro Fire Agency is responsible for the Agency's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, South Davis Metro Fire Agency, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

May 3, 2007

*Pinnock, Robbins, Posey & Richards*



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May 3, 2007

To the Board of Directors  
South Davis Metro Fire Agency

As part of our audit of the financial statements of South Davis Metro Fire Agency (the Agency), professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting (internal control) that rise to the level of "significant deficiencies" or "material weaknesses" that we identified during our audit of the financial statements.

As we previously discussed, these deficiencies must be communicated even though management may already know about them and may have made a conscious decision to accept these risks because of cost or other considerations. Also, the independent auditor cannot be used as an internal control to overcome internal control deficiencies. With this in mind we are communicating the following matters.

In planning and performing our audit of the financial statements of the Agency as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

## **SIGNIFICANT DEFICIENCIES**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### **1. Accrued Paid Absences**

We noted during our audit a deficiency in the operation of controls to ensure the proper recording of accrued paid absences. The calculation of accrued paid absences inadvertently excluded one employee.

#### **Management's Response**

The worksheet has been corrected.

### **2. Accrued Wages Payable**

We noted during our audit a deficiency in the operation of controls to ensure the proper recording of accrued wages payable. An error was made in the calculation of accrued wages payable (the number of days accrued was miscalculated).

#### **Management's Response**

Care will be taken in the future to ensure the correct number of days is used in the accrual calculation.

## **MATERIAL WEAKNESSES**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

### **3. Allowance for Doubtful Accounts**

We noted during our audit a deficiency in the operation of controls to record a sufficient allowance for doubtful accounts related to ambulance and paramedic fee accounts receivable.

#### **Management's Response**

The method of calculating the allowance for doubtful accounts will be modified to comply with the auditor's recommendation.

### **4. Unrecorded Liabilities**

We noted during our audit a deficiency in the operation of controls to ensure that unrecorded liabilities are recognized in the proper accounting period. We noted a vendor invoice that was posted based on the vendor invoice date. Generally accepted accounting principles require the recognition of expenses when services are rendered or goods are delivered. A contractor payment request for December 2006 work performed was not accrued in accounts payable.

#### **Management's Response**

The Agency will see that accruals are recognized based on the date services are rendered or goods are delivered.

5. Credit to Bountiful City

We noted during our audit that disbursements related to the \$3.1 million credit owing to Bountiful City were improperly recorded to construction in progress and fund balance instead of being applied to the payable to Bountiful City and receivable from the remaining member entities.

Management's Response

In the future, reductions in the credit will be applied to the receivable and payable accounts, as recommended by the auditor.

6. Grant revenue recognition

We noted during our audit a deficiency in the design of controls to ensure that grant revenue and corresponding expenses are properly recognized. Certain expenses incurred during the year that are reimbursable from grant proceeds were recorded as grants receivable, without revenue and expense being recognized.

Management's Response

Grant revenue and expense will be recognized in the future instead of holding expenditures in a receivable account until grant proceeds are received.

7. Preparation of financial statements

We noted during our audit a deficiency in the design of controls with respect to the preparation of financial statements and related footnote disclosure in accordance with generally accepted accounting principles.

Management's Response

Management has made the decision to continue utilizing the auditor to help prepare the financial statements and related notes.

**STATE LEGAL COMPLIANCE**

During our audit, we noted certain matters involving State of Utah Legal Compliance requirements that are presented for your consideration.

8. Cash deposits

During our audit, we noted that the Agency is not in compliance with the requirement to deposit public funds not later than three business days after receipt, as required by *Utah Code 51-4-2(2)*. We recommend that the Agency implement controls to insure that cash receipts are deposited daily, where possible, but not later than three business days after receipt, as required by state law.

Management's Response

The Agency will train the billing clerk to make the deposit in the absence of the executive secretary, who routinely deposits cash receipts.

9. Treasurer's fidelity bond

During our audit, we noted that the amount of the Agency's treasurer's fidelity bond was below the minimum bond required by *Utah Code 51-7-15*. We recommend that the Agency increase its treasurer's fidelity bond coverage above the minimum bond requirement and that the Agency implement controls to insure that proper bond coverage is maintained.

Management's Response

The Agency will review treasurer's fidelity bond coverage annually and adjust as needed.

South Davis Metro Fire Agency's written responses to the significant deficiencies, material weaknesses, and State legal compliance issues identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, members of the board of directors of the Agency, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

PINNOCK, ROBBINS, POSEY & RICHINS, PC